REAL ESTATE

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INSIDE

Average long-term mortgage rate falls to 6.35% this week

By Alex Veiga and Melissa Winder
ASSOCIATED PRESS

LOS ANGELES — The average rate on a long-term U.S. home loan is down to the lowest level in five weeks, welcome news for house hunters facing a market constrained by persistently high prices and a near-historic low number of homes for sale.

Mortgage buyer Freddie Mac said Thursday that the average rate on the benchmark 30-year home loan inched down to 6.35% from 6.39% last week. The average rate a year ago was 5.30%.

The average benchmark rate has now edged lower seven of the last nine weeks since reaching a high for this year of 6.73% in early March.

"This week's decrease continues a recent sideways trend in mortgage rates, which is a welcome departure from the record increases of last year," said Sam Khater, Freddie Mac's chief economist. "While inflation remains elevated, its rate of growth has moderated and is expected to decelerate over the remainder of 2023. This should bode well for the trajectory of mortgage rates over the long-term."

High rates can add hundreds of dollars a month in costs for homebuyers on top of already high home prices. The elevated rates combined with a stubbornly low inventory of homes on the market have weighed on U.S. home sales this spring homebuying season.

Sales of previously occupied U.S. homes fell 22% in the 12 months ended in March, marking eight straight months of annual sales declines of 20% or more, according to the National Association of Realtors.

SOUND OFF

What do you expect to happen with interest rates in the coming months?

A: Buyers and sellers have been anxiously monitoring the recent rate hikes and wading through the muck of sensational headlines and cheap, myopic clickbait. It's important to study how other key factors coalesce to create "the market": buyer and seller reactions to lower home prices and higher rates, low inventory, the persistence of multiple offers for well-prepared homes in desirable locations, and well-coached, cash-heavy buyers. Successful buyers and sellers are leaning on trusted real estate advisors to navigate these murky waters.

Fits of market stagnation from low inventory, extra-discerning buyers, and sellers comfortable with their roughly 3% can seem confusing. Well-advised clients who embrace the new rate reality and craft careful strategy are landing deals.

The good news? Rates are projected to decrease by half a percentage point in 2023's fourth quarter, alleviating fears and enticing more buyers back into the market. Buying now and refinancing in 2024 has become a popular strategy espoused by lenders.

By staying informed, understanding market dynamics, and working with a professional Realtor, you can navigate the complexities and make sound decisions that align with your goals.

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A: In this industry, I am accustomed to answering questions that normally require a crystal ball. This question is one of them.

We could see 8% interest rates for the 30-year product by year end. Inflation is still not under 3%, and supply shortages in the food, semiconductor and pharmaceutical sectors could keep the price of goods higher. This motivates the Fed to tighten the money supply.

If a higher interest rate is paired with a housing inventory shortage, savvy sellers ought to offer rate buydowns to loan buyers to decrease the cost of purchasing a home. On top of that, sellers can offer closing cost credits to sweeten the deal. Sellers need to know how to overcome buyers' hurdles so buyers can offer top dollar in return. These strategies could decrease the listing's total days on market metric, which is 29 on average. Not all buyers have cash positions.

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A: It is a bit impossible to know, because so many unpredicted things can happen in the world such as COVID-19, inflation and bank failures to name a few.

When things like this happen, all predictions go out the window, but to that end ... May 10 was a big date in the inflation environment where analysts felt that year-over-year inflation numbers would finally be a good reflection of the true economic climate. This is in hopes of the Fed is seeing more favorable numbers with inflation trending down.

Those numbers came in good, so interest rates dropped. If that trend continues (and it should) interest rates should continue to come down with the expectation, they will land in the 5% range.

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